



***Cabinet for Economic Development
2005 Annual Report***

**Ernie Fletcher
Governor**

**Marvin E. Strong, Jr.
Secretary**

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Kentucky Cabinet for Economic Development at a Glance

The **Kentucky Cabinet for Economic Development (KCED)** is the primary state agency in Kentucky responsible for creating new jobs and new investment in the state. Programs administered by the Cabinet are designed to support and promote economic development within the Commonwealth primarily through attracting new industries, assisting in the development of existing industries, and assisting communities in preparing for economic development opportunities. The Cabinet consists of:

- Office of the Secretary
- Department for Existing Business Development
- Department for New Business Development
- Department of Commercialization and Innovation
- Department of Financial Incentives

Kentucky Economic Development Partnership Board

The Cabinet is governed by the **Kentucky Economic Development Partnership**. The Partnership is composed of 11 voting and 2 nonvoting members. Eight private sector members appointed by the Governor represent each of the state's six congressional districts with two at-large members. The secretaries of four Cabinets; Economic Development, Finance and Administration, Environmental and Public Protection and the Commerce Cabinet, serve as public sector, ex-officio members. The secretaries of Economic Development and Commerce are non-voting members. The Governor serves as chairman of the Partnership.

Governor Ernie Fletcher
Chairman of Partnership
Commonwealth of Kentucky

Luther Deaton, Jr.
Vice Chairman of Partnership
Chairman, President and CEO
Central Bank and Trust Company

Thomas M. Latta
Vice President/Secretary
Latta Insurance, Inc.

Todd L. Blue
Managing Director
Cobalt Ventures, LLC

Secretary R. B. Rudolph, Jr.
Finance and Administration Cabinet

Secretary Marvin E. Strong, Jr.
Cabinet for Economic Development

Nelda Barton-Collings
President
Nelda Barton-Collings Enterprises

Jean M. Wells
Vice President
Wells Health Systems

William F. Dohn
Dohn & Dohn Gardens

Secretary George Ward
Commerce Cabinet

William J. Jones
Division Manager
U.S. Bank

Secretary LaJuana Wilcher
Environmental and Public Protection
Cabinet

Secretary's Comments

2005 was a year of tremendous growth in economic development opportunities for Kentuckians with more than 16,700 new jobs in manufacturing and supportive-service industries. This growth represented an investment of more than \$1.6 billion in the state's economy. Kentucky continued to receive national accolades as a great place for business, ranking 4th in the nation in *Site Selection* magazine's Annual Competitiveness Award. Other successes are reflected in Kentucky's 3rd place ranking for its workforce training programs in *Expansion Management* magazine and 9th place finish in *Site Selection*'s 2005 Annual Business Climate Rankings.

Kentucky's solid business relationships with existing industries resulted in expansion announcements by several major companies in the state. Among those were: Fidelity Investments on its Covington campus; Humana with expansions of both its Louisville and Newport operations; the UPS international air hub in Louisville; and the Georgetown Toyota plant will begin production of the hybrid Camry next year. These companies and many more demonstrate a continued commitment and confidence in Kentucky.

Kentucky's small businesses also got a big boost from the passage of Senate Bill 156, which created two new initiatives designed to support small business. The Small Business Loan program, administered by the Kentucky Economic Development Finance Authority, offers qualified companies with 50 or fewer employees a financial tool for business expenses including working capital. The Kentucky Business Finder, an on-line database developed to promote sales for and between Kentucky businesses, was also implemented to offer Kentucky-based companies a free global marketing tool. Another positive move for Kentucky's small businesses was the reorganization and transfer of the Kentucky Commission on Small Business Advocacy to the Cabinet. The Commission promotes collaboration between state agencies and the small business community to maximize the success of these businesses.

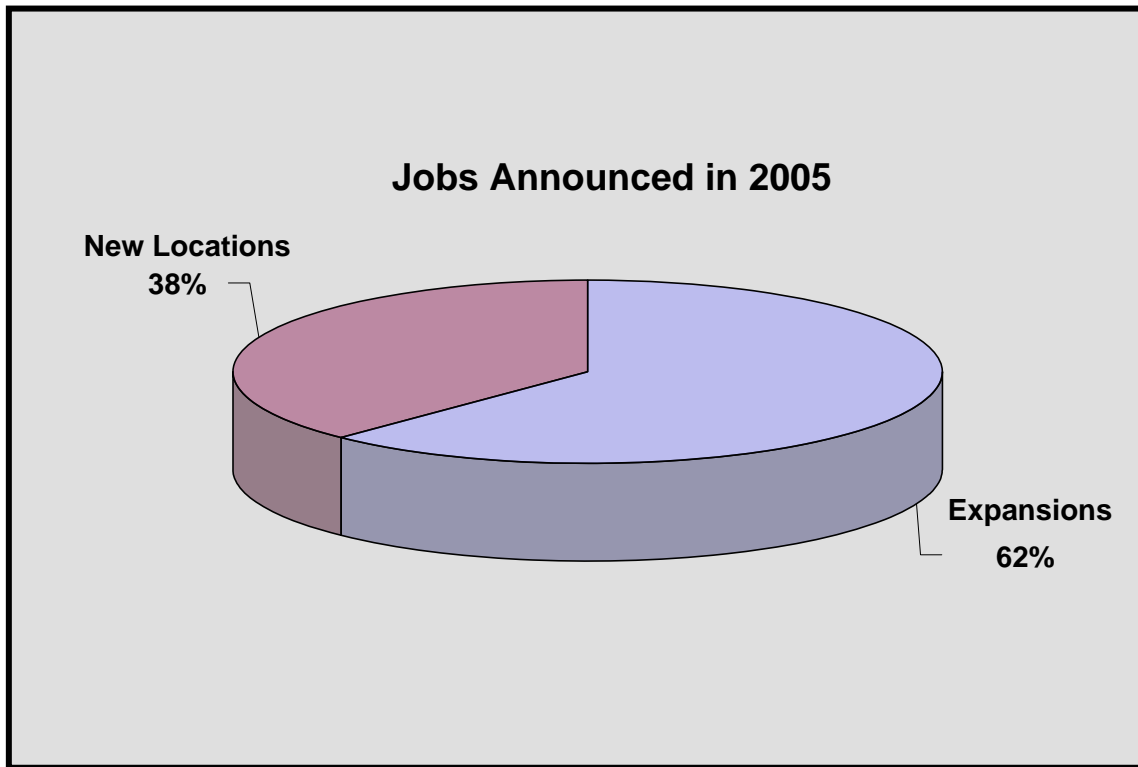
More than \$15 million was awarded for 28 projects to help Kentucky's high-tech companies thrive through the Cabinet's innovation and commercialization efforts. For example, in Lexington a newly constructed 20,000 square-foot Center for Pharmaceutical Science and Technology will provide state-of-the art pharmaceutical analysis, formulation, and FDA/DEA-approved sterile product manufacturing. In Louisville, the MetaCyte Business Lab is helping to create and launch life science companies and will employ up to 1,000 people at an average salary of \$70,000 per year within ten years. The combined value of these biotech businesses will exceed \$1 billion. The Cabinet also worked closely with high-tech groups to help develop improved clean coal processes and to pursue innovative and practical energy and environmental solutions.

Communities throughout the state know what it takes to develop an atmosphere conducive to attracting and expanding business. This is evident in Kentucky's 3rd place national ranking in *Site Selection*'s annual Micropolitan Awards for most micropolitan areas in the Top 100.

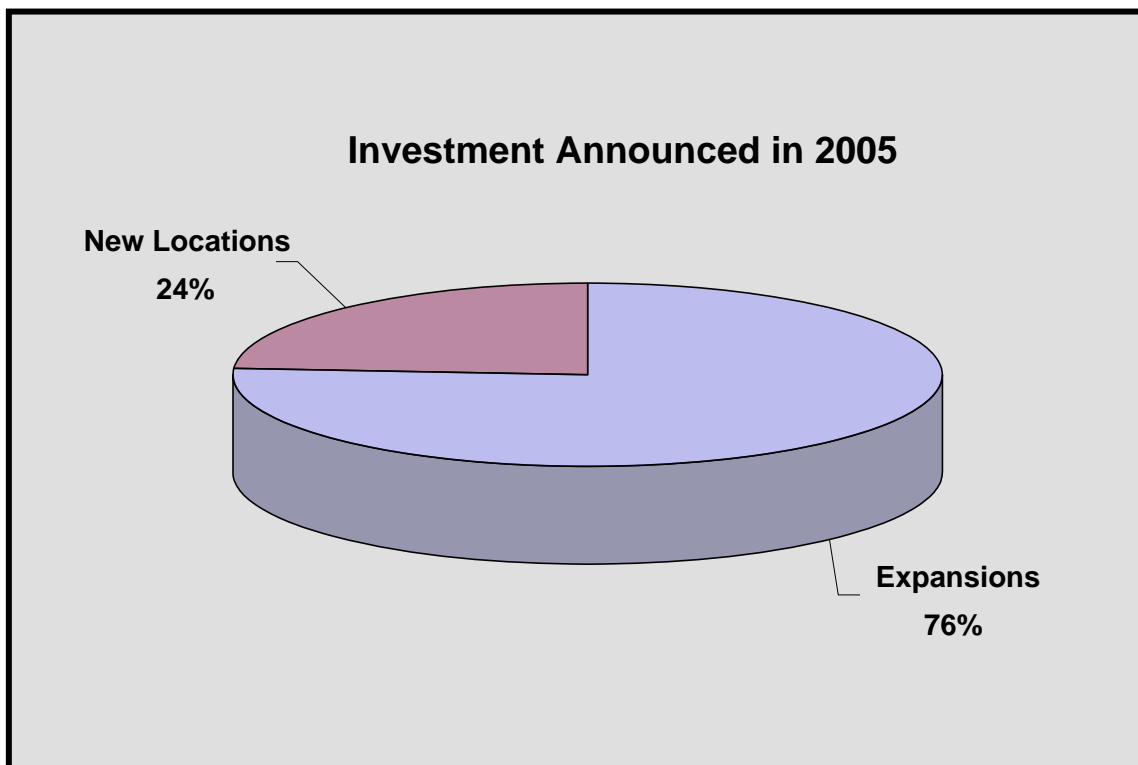
We continue to receive high praise from the business community statewide that have come to respect Kentucky as an innovative state able to compete in the global economy. I thank our many business and community partners across the state for working hard to achieve our common goal of increased prosperity for all Kentuckians.

Marvin E. Strong, Jr.
Secretary, Cabinet for Economic Development

Business expansions accounted for the majority of new jobs.



Most investment went for business expansions.



2005 Governor's Economic Development Leadership Awards

Three distinguished Kentuckians received the Governor's Economic Development Leadership Award in 2005. The awards recognize those individuals in Kentucky who volunteer their time and resources for economic development. Governor Ernie Fletcher presented the awards during the Tenth Annual Governor's Economic Development Leadership Awards dinner held in conjunction with the Kentucky Association for Economic Development's (KAED) annual meeting in Lexington, Kentucky. The Leadership Awards are designed to honor those whose vision and leadership have been instrumental in creating jobs and improving Kentucky's local, regional and statewide economy. Congratulations to the following recipients of the 2005 Governor's Leadership Awards:

Michael Buchanon

Bowling Green

Warren County Judge-Executive

William P. Butler

Covington

CEO, Corporex Companies, Inc.

Stephen Poe

Louisville

Owner, Poe Companies

Key Economic Development Rankings for 2005

Site Selection magazine's yearly analyses are regarded by corporate real estate analysts as "the industry scoreboard". Kentucky's rankings include:

- 4th nationally in the 2005 *Site Selection* Competitiveness Award. The award is based on 10 quantifiable criteria that measure business expansion activity that took place in the previous calendar year. The indexing system puts all states on a level playing field. (*Site Selection*, May 2006)
- 9th in *Site Selection*'s 2005 Top 25 State Business Climate Rankings. In addition to expansion activity, equal weight is given to a state's overall rank based on the results of a survey of corporate real estate executives, in which they were asked to rank their top 10 states according to ease of doing business, overall business costs and related factors. Kentucky placed 10th in the Executive Survey. (*Site Selection*, March 2006)
- 11th place nationally in the 2005 *Site Selection* Governor's Cup awarded annually to U.S. states with the most new and expanded facilities. Kentucky has the smallest population of any of the states in the top 15. (*Site Selection*, March, 2006)
- 3rd for the 2005 Top States with Most Micropolitans in the Top 100 (for corporate expansions) with 10 Micropolitan areas. The communities are Paducah; Glasgow; Danville; Richmond; Somerset; Corbin; Frankfort; Mt. Sterling; Murray; and the Union City, Tennessee-Kentucky region. (*Site Selection*, March 2006)
- 9th (*tied*) for 2005 Top States with Most Top Metros with 5. (*Site Selection*, March 2006)
- The Fidelity Investments project to construct a new 350,000 square-foot building at its Covington facility to consolidate its Midwest operations was selected for Honorable Mention as one of the Top Deals for 2005 by *Site Selection*. This \$115-million expansion will create 1,500 additional jobs on the Covington campus. (*Site Selection*, May 2006)
- 7th (*tied*) Largest US Corporate Project by number of employees (1,500) in 2005 with the announcement of the Fidelity Investments financial services facility in Covington. (*Site Selection*, March 2006)
- 5th Largest Fabricated Metals project by investment in 2005 with the announcement of a \$42 million investment by Kobe Steel Ltd. in Bowling Green. (*Site Selection*, March 2006)

- 11th in the list of states with the most new and expanded facilities from 2003 to 2005. Kentucky has the smallest population of any of the states in the top15. (*Site Selection*, March 2006)

Accomplishments of Cabinet Departments and Offices

Office of the Secretary: Responsible for the development and administration of the executive policies and for the overall management of the agency. Staff and administrative functions within the Office include communication services and special projects. Attached to the Office of the Secretary are:

Office of Legal Services: Provides all legal services for the Cabinet.

Office of Administrative Services: Provides Cabinet-wide services in areas of fiscal management, budgetary implementation, and personnel support.

Office of Research and Information Technology: provides Cabinet-wide support in the areas of information resources, research services, and strategic planning support services. Consists of three divisions:

Division of Database Systems and Development: Responsible for development of all Cabinet information systems, database development/maintenance, business analysis, and GIS development/maintenance.

Development of local economic development websites for 9 communities. Completed and implemented four websites.

Provided support for 34 New Business Development projects, including the development of 19 new project websites and the updating of 12 existing project websites.

Completed Kentucky Business Finder web application, designed to promote sales between Kentucky companies.

Completed ID project tracking database application, used to replace an existing stand-alone system with a system that is more robust and fully integrated with EDIS.

Re-wrote online update form for annual KBIIS facility survey.

Division of Research and Site Evaluation: consists of two branches. The **Site Evaluation Branch** maintains current data on available industrial sites and buildings in the state. In addition, the branch assists communities in evaluating potential industrial sites. The graphics section of the branch prepares promotional and informational material for printing and display. The **General Research Branch** compiles data on taxes, transportation, education, labor force, industrial services, Kentucky companies, economic and demographic statistics, and community information.

Site Evaluation Branch:

Published 205 industrial site maps and worked on 67 others. Visited 226 industrial sites in 102 communities as well as 38 available industrial buildings and revised information on 43 buildings, removed 84 buildings from the available industrial building list, gathered information on 34 buildings that have been, or are expected to be added to list.

Provided information for 88 industrial development projects, 240 general requests and 410 graphics requests, including the Kentucky Derby, trade shows, conferences, and economic development trips.

Developed and implemented land absorption analyses, surveyed planning and zoning activity in all Kentucky counties, revised site and building criterion, upgraded color printing and copying capabilities, implemented EDIS 2 site map production system, and added broadband information to all site maps as updated.

General Research Branch:

Research for 43 New Business Development projects. Completed 563 special data projects and responded to 1,372 general data requests. Created 50 presentations and 42 economic impact analyses.

Prepared 198 tax summaries, estimates, comparisons, and calculations, including Industrial Revenue Bond analysis for several projects.

Updated more than 64 KBIIS reports and EDIS tables and over 44 Deskbook of Economic Statistics tables.

Surveyed more than 3,500 manufacturing and supportive service facilities to update the Kentucky Business and Industry Information System (KBIIS) database. In conjunction with the updates, surveyed the facilities for inclusion in the *Kentucky International Trade Directory* produced by the Department for Existing Business Development, Division of International Trade.

Research and calculations on the economic impact of businesses by employment size published in the Lane Report – *Small Business and the Kentucky Economy*.

Department of Commercialization and Innovation

The **Department of Commercialization and Innovation (DCI)**, formerly the Office for the New Economy, is responsible for leading the Cabinet's efforts in creating a knowledge-based economy throughout the Commonwealth. Commissioner Deborah L. Clayton took office in July, 2005.

After traveling across Kentucky to assess the status and needs of the state regarding the development of a high-tech infrastructure and knowledge-based economy, Commissioner Clayton implemented several new policies, management activities, and initiatives:

New Policies:

Implemented a moratorium on funding the construction of buildings intended solely for academic basic research.

Reaffirmed a moratorium on establishing new Innovation & Commercialization Centers (ICCs) and Innovation Centers (ICs).

Implemented new performance metrics for existing ICCs and ICs to increase emphasis on return on investment

Management Activities:

Biosciences Assets and Capabilities Assessment – Developed a request for proposals to select a consulting company that will conduct a statewide assessment of bioscience assets and capabilities throughout Kentucky's industry, universities, and government. The consulting company will help identify key bioscience intellectual properties (patents) for fast track commercialization. A comprehensive, searchable database of bioscience resources within the Commonwealth will be developed for use by businesses in Kentucky and other states to facilitate existing and new business opportunities between companies.

Kentucky Science & Technology Corporation – DCI contracts with the Kentucky Science & Technology Corporation to manage the operations of the Commonwealth's regional Innovation & Commercialization Centers (ICC's) and Innovation Centers (IC's). A total of six ICC's and seven Innovation Centers (IC's) across the state operate to increase the quality of investments flowing to knowledge-based firms throughout Kentucky. The program also works to increase statewide knowledge of entrepreneurship, start-up processes, and investment practices, while providing value-added services to existing businesses, start-ups, and the investment community. KEDFA-approved funding by DCI for 2005 in support of ICC and IC operations was \$872,985.

Management Services for Commonwealth Seed Capital, LLC – Solicited and evaluated proposals for new management services for Commonwealth Seed Capital, LLC. Based on proposals received, the Fort Washington Capital Partners Group was chosen to provide new management services.

New Initiatives:

IT Collaboration Initiative – DCI initiated the formation of a new alliance between key Kentucky information technology-related agencies and businesses to facilitate and leverage broadband access throughout the Commonwealth. The partnership, led by DCI, includes the Commonwealth Office of Technology, ConnectKentucky (part of the Center for Information Technology Enterprise), Kentucky Community & Technical College System, Bluegrass State Skills Corporation, and the Kentucky Datastream Initiative.

Life Sciences Commercialization Program – Proposed a Life Sciences Commercialization Program to implement the recommendation by the 19-member Governor's Life Science Consortium to enhance the current statewide commercialization program to more adequately address the life sciences disciplines.

Manufacturing Learning Center – DCI jointly submitted with the Kentucky Community & Technical College System a federal grant proposal for approximately \$2.5 million to develop an advanced Manufacturing Learning Center to be built in Georgetown that will help address the impending skills crisis in Kentucky's automotive industry and other sectors that rely on advanced manufacturing.

SBIR Incentive Program – Proposed initiating a Small Business Innovation Research (SBIR) Incentive program with specific Phase 1 and Phase 2 funding objectives. SBIR is a highly competitive federal program that encourages small businesses to explore their technological potential and provides the incentive to profit from commercialization.

Strategic Analysis of Technologies – Proposed hiring a consulting company to provide a general review (other than the biosciences) of Kentucky's science and technology assets and capabilities throughout the Commonwealth's industry, universities, and government.

Statewide Business Plan Competition – Proposed implementing a statewide business plan competition designed to encourage entrepreneurship and develop new high-growth ventures in the Commonwealth. Winners will receive a cash award and services with which to help grow their new ventures.

Projects Funded:

The primary mission of the Department of Commercialization and Innovation is to support the creation and retention of high-tech businesses and jobs throughout the Commonwealth of Kentucky. DCI administers two investment pools from which funds are used to support these worthy projects. All funding must be approved by the Kentucky Economic Development Finance Authority (KEDFA). In 2005, the total funding recommended by DCI and approved by KEDFA was \$17,213,599. Specific funding included:

Cardiovascular Innovation Institute – Funding was requested from DCI to support operations and complete the construction of the recently expanded Cardiovascular Innovation Institute at Jewish Hospital Medical Center in Louisville which increased in scope to include five floors and a vivarium to house animals used in clinical trials. The research focus is to bring new heart-assist devices from the bioengineering laboratory to

the patient's bedside as quickly and safely as possible. KEDFA-approved funding by DCI in 2005 was \$625,000.

Center for Information Technology Enterprise (CITE) – Also known as ConnectKentucky, this program requested funds to continue implementing broadband technologies as part of a three-year comprehensive, statewide broadband deployment plan. CITE will provide community implementation plans, funding assistance, project management in expanding community infrastructure, and a broad public relations effort in all of Kentucky's 120 counties. KEDFA-approved funding by DCI in 2005 was \$1.9 million.

Center for Pharmaceutical Science & Technology (CPST) – A new, 20,000 square-foot CPST manufacturing facility is scheduled to open in early 2006. Funding was requested for the CPST Coldstream project to ensure that the highly skilled staff already in place is retained until a self-sustaining revenue stream is achieved following the plant's opening. KEDFA-approved funding by DCI in 2005 was up to \$1.2 million. An additional \$500,000 will be provided as a forgivable loan to help purchase a revolutionary sterile injectable product closed vial filling (CVF) system.

Clean Coal Processes – The Kentucky Commerce Cabinet, Office of Energy Policy, Division of Energy Research, Development, and Demonstration, oversees a wide range of activities designed to develop new, coal-based technologies that would lead to new businesses and jobs in Kentucky. Funding was requested to help accelerate the deployment of clean coal processes, such as a coal bed methane recovery system, an improved coal gasification method, a wood-to-ethanol fuel conversion process, a depleted uranium battery technology, alternative products derived from biodiesel production, a coal fines recovery system, alternative liquid fuels derived from coal, and an improved method of pulverizing coal to reduce emissions. KEDFA-approved funding by DCI for 2005 in support of these efforts was for up to \$2 million.

Cymbion, LLC – Cymbion has a commitment for three private label contracts to produce products marketed as medical devices with drugs, based on the company's patented designs. Funding was requested for a manufacturing facility in Tompkinsville that meets all FDA regulatory requirements for producing drug products. Funds will be used for prototype tool production, FDA testing and consulting, purchasing production equipment, and personnel costs. KEDFA-approved funding by DCI in 2005 was for up to \$650,000.

Expert Management Organization – The Expert Management Organization (EMO) is designed to facilitate knowledge-based economic development in the rural areas of Kentucky. Each EMO team will consist of highly qualified managers capable of launching successful new products and companies. Funding was requested to underwrite salaries and operations in a pilot project intended to eventually be used by other Innovation and Commercialization Centers throughout Kentucky. KEDFA-approved funding by DCI for 2005 in support of these efforts was for up to \$250,000.

FutureGen Clean Coal Demonstration Project – The FutureGen project, announced by President Bush in February 2003, is a planned \$1 billion, 15-year effort to perfect advanced "clean coal" technologies that can lead to increased interest in Kentucky coals and to new business ventures and jobs. Efforts are underway to show federal officials why it would be logical to locate the FutureGen "zero emissions" facility on a suitable site

in Kentucky. KEDFA-approved funding by DCI for 2005 in support of these efforts was for up to \$950,000.

International BIO 2005 Conference “BioKentucky” Exhibit – The Biotechnology Industry Organization (BIO) represents more than 1,000 biotechnology companies, academic institutions, state biotechnology centers, and related organizations from all 50 states and over 30 other nations. Through the Kentucky Council on Postsecondary Education (CPE) and the Kentucky Science and Technology Corporation (KSTC), funds were requested to help partially offset the costs associated with Kentucky’s participation in the annual conference and exhibition. A 400 square-foot exhibit was designed and built in Kentucky, then shipped to Philadelphia, Pennsylvania, for the June 19-22 event. KEDFA-approved funding by DCI in 2005 was \$100,000 (not to exceed the total of private donations).

Kentucky Consortium for Energy and the Environment – The Consortium, under the Office of Energy Policy within the Commerce Cabinet, supports collaborative efforts among its member institutions, government, and industry in pursuit of innovative, practical solutions to pressing energy and environmental issues. Members include the University of Kentucky, University of Louisville, Murray State University, and the Kentucky Community and Technical College System. KEDFA-approved funding by DCI for 2005 in support of the Consortium’s efforts was for up to \$1,187,000.

Kentucky Daseam Initiative, Inc. – Daseam is a non-profit, Louisville-based organization that is building a statewide research computer infrastructure by leveraging over \$10 million worth of current desktop computers and network assets in the Commonwealth’s P-12 grade school districts. Up to 80 university researchers will be able to access the computers when the schools are not using them, which will accelerate research to commercialize anticancer drugs. It is the largest computing grid of its type in the U.S. KEDFA-approved funding by DCI in 2005 was for up to \$2,075,000.

MetaCyte Business Lab – MetaCyte is a business incubator facility in Louisville that specializes in supporting and developing biotechnology companies. MetaCyte’s customers are investors that take equity positions in life science and healthcare technology companies. Funding was requested to support existing operations and to acquire additional “human capital,” such as experts in clinical regulatory issues and drug and device development. KEDFA-approved funding by DCI in 2005 was \$750,000.

Safety & Security Incubator – Located on the campus of Eastern Kentucky University, the Safety and Security Incubator supports the development of small businesses focused on developing and commercializing safety and security products. The incubator facility is the result of a partnership between Eastern Kentucky University’s College of Business and Technology and the College of Justice and Safety. KEDFA-approved funding by DCI in 2005 to support the incubator’s start-up and operations was for up to \$51,845.

Secat, Inc. and the University of Kentucky Research Foundation – Secat was formed in 1999 through a university-industry partnership to facilitate the research and development of innovative technologies and products for the aluminum industry. Funding was requested to support research, salaries, and operating costs at the new Sloan Center for a Sustainable Aluminum Industry housed at the University of Kentucky. KEDFA-approved funding by DCI in 2005 was \$150,000.

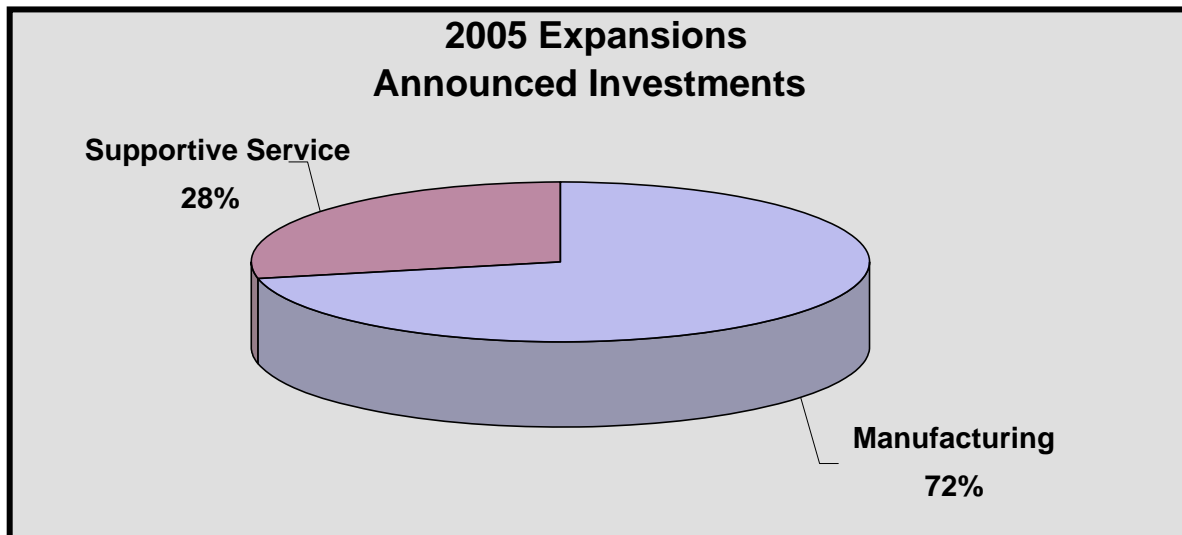
Department for Existing Business Development

The **Department for Existing Business Development** is responsible for assisting and encouraging job retention and creation by working with existing business and industry. Existing Business Development partners with outside agencies and communities to conduct workshops, community assessments, and business surveys to support local development efforts. The Department consists of the Division of International Trade, the Regional Economic Development Divisions, and the Division of Small Business Services.

Business Expansion and Retention

Three hundred and four expansion projects announced during 2005 resulted in more than \$1.28 billion in total capital investments and 10,367 new jobs in Kentucky. Two hundred and forty-seven of those expansions were for manufacturing operations, and represent 4,988 new jobs to be created with investments of over \$924.2 million. Fifty-seven announcements were for supportive/service operations that will add 5,379 new jobs when full employment is attained and investments of over \$364 million.

Source: Kentucky Business & Industry Information System (KBIS), 2005 New & Expanding Industry Report generated 6/5/06.

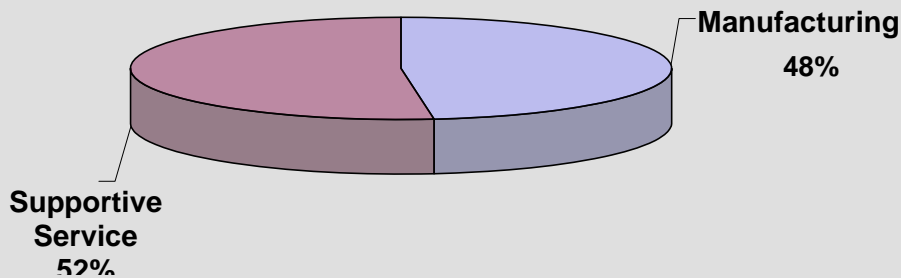


The Department's three **Regional Offices**, based in Prestonsburg, Frankfort, and Madisonville, bear primary responsibility for the Cabinet's work with existing and start-up businesses. This mission to retain existing jobs and create new jobs is accomplished through direct contact with businesses and community leaders across the Commonwealth.

During 2005 the Regional Offices accounted for 2,672 business contacts and assisted in 74 business expansion projects. These projects are expected to result in total capital investment of \$830.2 million and the creation of 7,302 new jobs.

Additional project work included 8 new business start-ups, with total capital investment of \$49 million and 611 new jobs, and 1 business retention project with an investment of \$60 million to retain 463 existing jobs.

2005 Expansions Jobs Announced



Major Expansion Projects

Ceradyne, Inc. announced an investment of \$11.8 million in its operations in Lexington to expand its production of porous refractory tungsten, graphite body armor, and samarium cobalt magnets. This expansion will create 128 new jobs.

Clopay Plastic Products announced a \$16.5 million expansion of its plant in Augusta (Bracken County) that will add 136 new jobs. The company produces a variety of products, including garage doors, surgical supplies, and patient care products.

Fidelity Investments announced that it would add a \$120 million office building to its financial services campus in Covington, adding up to 1,500 new jobs.

Humana Inc. announced a major expansion of its back office services, claims, sales and sales support functions in both Louisville and Newport. A total of 1,375 new jobs will be created, including 1,155 in Louisville and 220 in Newport.

Ira Wood & Sons, Inc. of Owensboro announced an expansion of its distribution business for home improvement products. This \$9 million investment will create up to 115 new jobs.

Lafarge North America announced that it will double its gypsum wallboard production facility in Silver Grove in Campbell County, investing \$103 million and adding 100 new jobs.

TG Automotive Sealing in Hopkinsville announced a \$90 million expansion of its production facility for weather-stripping and rubber and plastic automotive parts. A total of 90 new jobs will be added at the plant.

Toyotetsu announced expansions at both of its Kentucky facilities which produce stampings and structural automotive components. **Toyotetsu Mid-America** in Owensboro is investing \$11.5 million in new equipment that will add 40 new jobs.

Toyotetsu America in Somerset will invest \$12 million in building expansion and new equipment, creating 30 new jobs.

UPS Supply Chain Solutions also announced an \$11.5 million expansion of its Louisville distribution operations which support the health care and technology industries, creating 382 new jobs.

United Parcel Service announced the addition of a new cartage service operation to its worldwide air hub at the Louisville International Airport. The \$90 million investment is expected to create 400 new full-time jobs and several hundred more part-time positions.

International Trade

Total **Kentucky exports** increased by \$1.9 billion in 2005, greatly strengthening the state's presence in the global economy. In total, Kentucky exported nearly \$14.9 billion in total goods and services, ranking 7th among the 50 states on a per capita basis.

The **Division of International Trade** assists Kentucky businesses in the global market place through one-on-one counseling and partnerships with Kentucky's foreign trade offices in **Mexico** and **South America**. During 2005, International Trade assisted 87 new clients and handled 198 new requests from existing clients. The state's foreign trade offices in Mexico and South America supported additional businesses at eight major trade shows in the hemisphere, promoting Kentucky goods and services in the environmental, manufacturing, franchise, livestock, equine, agriculture, and food/beverage/spirits sectors.

The Commonwealth of Kentucky was one of six states selected by the U. S. Chamber of Commerce to participate in its **TradeRoots Initiative** to develop and execute new export development programs. The "Export Kentucky" promotion included a kick-off luncheon hosted by Governor Ernie Fletcher and Chilean Ambassador Andres Bianchi, three seminars on "Doing Business with Chile", and three industry sector video conferences with the US Embassy in Chile. The program culminated in an October trade mission to Santiago, Chile with seven Kentucky companies.

Significant progress was made toward opening a third **Kentucky trade office in China**. During 2005, the Cabinet held a series of three roundtable discussions with Kentucky companies already in China, and participated in Governor Fletcher's visit to China in May. As needs and expectations for the office were clarified, a request for proposals was issued. Proposals were received from twenty-five firms. A contractor for the China Trade Office should be selected in the first quarter of 2006, with the opening of the office to follow in the second quarter.

Small Business Services

The **Small Business Services Division** sponsors significant programs to support small business growth. During 2005, the Cabinet, through this division, helped to sponsor the statewide Women's Economic Development Outreach (WEDO) Tour, a series of workshops in six communities for women-owned businesses.

The **Small and Minority Business Branch** handled a total of 1,032 inquiries for business assistance, leading to 462 contacts for direct counseling. This branch also

worked with lenders and business owners to develop improved financial assistance tools, such as the Cabinet's new Small Business Loan program. During 2005, client firms were assisted in obtaining six loans for a total of \$848,750, including three loans for a total of \$300,000 from the Linked Deposit Loan program, with the remaining loans from non-state sources.

The **Business Information Clearinghouse Branch** responded to 8,379 requests for informational assistance. Information packets on applicable licenses and permits were sent to 1,222 callers.

The **Procurement Assistance Program** has an active client base of 1,889 client firms, which has reported a total of more than \$111 million in government contracts obtained during 2005. This program held 29 training events, including major procurement conferences at Fort Knox and Fort Campbell, and provided 1,764 one-on-one counseling sessions.

Commission on Small Business Advocacy

In 2005, the **Kentucky Commission on Small Business Advocacy** was reorganized and placed within the Cabinet for Economic Development. Upon Governor Fletcher's appointment of new commission members, the Existing Business Department assisted the commission in the establishment of a regular meeting schedule and the approval of new by-laws. Dedicated staff was hired to support commission activities on an ongoing basis.

Community Programs

As part of its ongoing partnership with the Kentucky Association for Economic Development (KAED) and the Kentucky Association of Counties (KACO), the Cabinet assisted in holding **one-day workshops** on the economic development process. The workshops are directed to basic education for local elected officials and development board volunteers. During 2005, more than 150 persons attended seven of these workshops in London, Maysville, Shelbyville, Bowling Green, Lexington, and Gilbertsville.

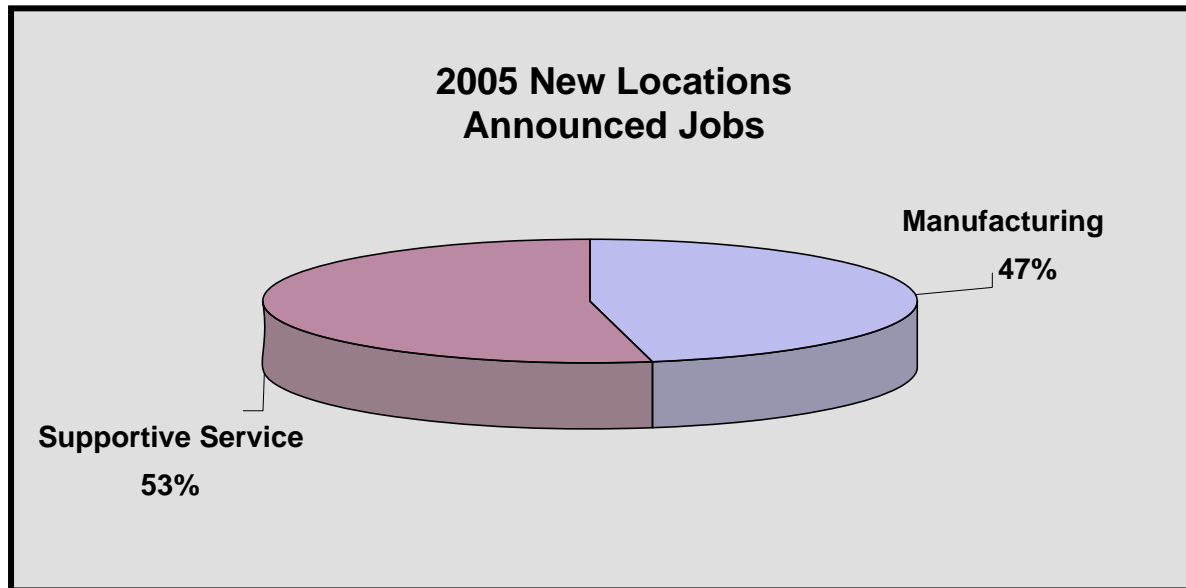
The **Action Plan** program serves as a means of helping local development groups and related agencies create annual work plans. Cabinet staff and other economic development professionals facilitate the planning process and produce a written report for local use. In 2005, the Action Plan program was facilitated with development agencies in Edmonson and Montgomery Counties, as well as the Cabinet's Division for Small Business Services and the Kentucky Pollution Prevention Council.

The **Community Assessment** program, an intensive two-day review of a local economic development program by a team of Cabinet and KAED volunteers, provides a blueprint for strengthening coordination between community organizations and a defined agenda for community improvement. During 2005, community assessments were performed in Breckinridge, Logan, Casey, and Lincoln counties.

Department for New Business Development

During 2005, new location announcements resulted in total capital investments of more than \$403.7 million and will create 6,324 new jobs in Kentucky. Thirty-six of those announcements were for manufacturing operations, and represent 3,063 new jobs when full employment is attained, with investments of over \$216 million. Twenty-four announcements were for supportive/service operations, which will create 3,261 new jobs when full employment is attained and investments of over \$187.6 million.

Source: Kentucky Business & Industry Information System (KBIS), 2005 New & Expanding Industry Report generated 6/5/06.



The **Department for New Business Development** is responsible for coordinating the recruitment and attraction of companies that will enhance the overall viability of the state's economy. The Department consists of the Industrial Development Division and two Representative Development offices.

Industrial Development Division: Promotes the state as a location for new facilities to domestic and international clients. Initiates and participates in out-of-state trips to recruit industry, providing clients with information regarding location requirements and travels with company representatives viewing sites and communities in the state. Project managers are assigned to act as liaisons between the client and permitting agencies, financial institutions, training assistance agencies, and local economic development groups.

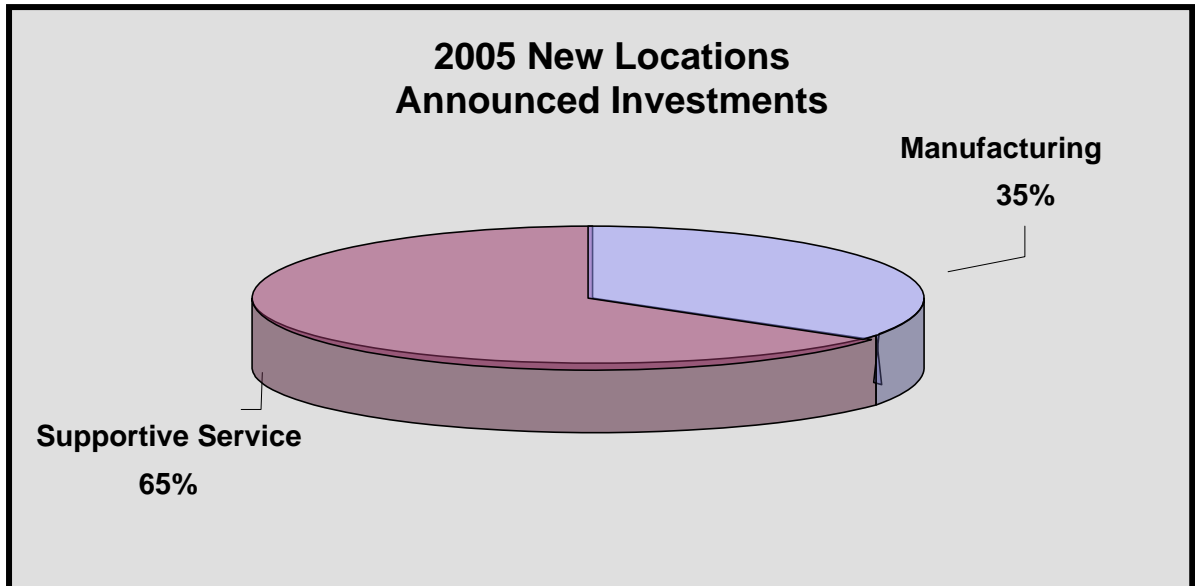
Representative Development Offices: The Department has representatives in two foreign offices – the Far East Office in Tokyo, Japan, and the European Office in Brussels, Belgium – to aid in the recruitment of foreign companies.

Department for New Business Development Accomplishments

Approximately 132 new projects/clients in 2005.

Over 227 community visits with clients.

Marketing efforts included sponsorship of the Automotive News Events in Michigan, Alabama, and Europe. Kentucky also exhibited at the BIO Trade Show in Philadelphia. Partnering with Governor Fletcher, the Department also hosted an event for site selection consultants in Atlanta.



Major New Location Announcements

3B, Inc., a subsidiary of Italian cabinet maker 3B S.p.A., announced their first U.S. manufacturing facility in Danville, Kentucky. The \$16 million facility will manufacture kitchen cabinet doors and employ 100 people initially.

In 2005, **Amazon.com** opened two distribution centers in Hebron, Kentucky. Together these facilities account for more than 1 million square feet of space and will employ 135 people at full operation. Amazon.com now operates four distribution centers in the state along with their locations in Campbellsville and Lexington.

Dakkota Integrated Systems selected Louisville, Kentucky, for a \$4.4 million facility for a new assembly and sequencing project for the automotive industry. Dakkota plans to hire up to 214 employees within the first two years of operation. They are purchasing an existing 100,000 square-foot facility.

Eleison Composites, a division of Humphrey Capital Group selected Morgantown, Kentucky, for a \$7.4 million manufacturing facility to produce plastic and fiberglass composite reinforcements primarily used in automotive markets. They purchased an

existing 64,730 square-foot facility. Eleison plans to employ 75 people within the first two years of operation.

Genentech, Inc., a leading biotechnology company based in California, will locate a 165,000 square-foot warehouse and distribution facility in Louisville, Kentucky. The company plans to invest over \$18 million in the operation and will employ 60 individuals. Genentech discovers, develops, manufactures and commercializes biotherapeutics for significant unmet medical needs. Founded in 1976, the company has multiple protein-based products on the market for serious or life-threatening medical conditions and over 30 projects in the pipeline. Its research organization focuses its efforts on basic and applied science in oncology, immunology, and vascular biology.

Joy Mining Machinery, a global leader in the development, manufacture, distribution and service of underground mining equipment, located its new manufacturing and service operation in a 90,000 square-foot building in Lebanon, Kentucky. The \$7.1 million investment is projected to create more than 200 new jobs in the Commonwealth. All Joy Mining Machinery products are distributed and supported by the company's 46 facilities located in eight countries around the world. Headquartered in Warrendale, Pennsylvania, Joy Mining Machinery was founded in 1919 by Joseph Joy. Its parent company, Joy Global Inc., is located in Milwaukee, Wisconsin.

Lion Apparel continues to grow in Kentucky by opening its third facility near Campton, Kentucky. The 106-year-old company is the largest manufacturer of personal protective equipment for fire departments in the U.S. and in the world. The 30-employee \$5.2 million Campton facility joins facilities in Beattyville and West Liberty.

Maintainer Corporation, a family-owned manufacturer of premium quality, customized mechanic's service truck bodies, lubrication truck bodies, and extendable cranes, will create 60 new jobs and invest \$3.25 million to locate a new manufacturing facility in Hopkinsville, Kentucky. Maintainer's end-users include heavy construction equipment dealers, road builders and heavy construction companies, railroads, mining operations, and others. Additionally, Maintainer's sister company, Link Manufacturing, Ltd. will use the new facility as a regional distribution and installation center for several of its products. Link Manufacturing, Ltd. is a diversified manufacturer of highly engineered products and systems to the heavy truck and commercial vehicle industries including: air suspensions for truck cabs; liftable axles for work trucks; air suspensions for light and medium-duty trucks; and a variety of cargo management products for several niche industries.

One Cloverleaf, LLC, a wholly owned subsidiary of Cardinal Health, selected Radcliff, Kentucky, as one of two locations for consolidation of their 28 customer service facilities. This new facility will employ 500 at an average annual wage of \$28,000 and a \$12.7 million investment. The facility is locating in an 81,900 square-foot building which was formerly a Wal-Mart store. The company was approved for benefits of \$8 million through the Kentucky Jobs Development Act (KJDA).

UGN, Inc., headquartered in Chicago, Illinois, announced plans to purchase an existing 314,000 square-foot building in Somerset, Kentucky to produce acoustical carpet systems for 2007 production year vehicles. Employment is expected to reach 300 jobs within three years, and the project investment represents \$16 million for the Commonwealth. UGN, Inc., is a recognized leader for acoustic, interior trim and thermal management products serving the Japanese transplant automotive industry in North

America. UGN was established as a joint venture in 1986 between Nihon Tokushu Tokyo Co., Ltd., and Rieter Automotive Systems UGN, Inc.

Department of Financial Incentives

The **Department of Financial Incentives (DFI)** coordinates all financial assistance, tax credit and related programs available to business and industry. The Department is comprised of four divisions: Grant Programs Division, Direct Loan Programs Division, Tax Incentive Programs Division, and Program Servicing Division. Additionally, the Bluegrass State Skills Corporation (BSSC) is attached to the department. The employees of the Department also serve as staff to the Kentucky Economic Development Finance Authority (KEDFA), the Bluegrass State Skills Corporation, and the Enterprise Zone Authority of Kentucky.

Bluegrass State Skills Corporation (BSSC)

The Bluegrass State Skills Corporation (BSSC) awarded grants totaling \$3,483,513.45 to fund 126 projects to 104 Kentucky companies and ten consortia in 2005. These figures include 22 projects in the amount of \$277,080.75 approved with funding provided by Kentucky Adult Education (KYAE) of the Council on Postsecondary Education (CPE).

The BSSC Skills Training Investment Credit Program provided preliminary approval for \$767,302.18 in tax credits for 15 projects in 2005. In addition, 23 companies received final approval of \$873,798.33 in tax credits through the Skills Training Investment Credit program in 2005.

Economic Development Bond Program (EDB)

The Economic Development Bond Program (EDB) made bond funds available to six different projects across the state totaling \$1,940,500 during 2005. The Kentucky Economic Development Finance Authority (KEDFA) authorized the issuance of \$111,000,000 in industrial revenue bonds for four projects. Pursuant to KRS 103.210, KEDFA reviewed two local issues of industrial revenue bonds.

Kentucky Economic Development Finance Authority (KEDFA) Direct Loan Programs

The Kentucky Economic Development Finance Authority (KEDFA) approved a total of \$1,400,000 in direct loans to five different borrowers in 2005. The loans were made to both new businesses coming into the state as well as to expanding businesses and to local industrial development authorities. The loans will help create at least 100 new jobs in Kentucky over the next two years. In addition, KEDFA established a new Small Business Loan Program in late 2005. Under the new program, KEDFA approved a total of \$292,000 to three small businesses, two existing small businesses and one new business. The three loans will help create at least three new jobs.

Kentucky Economic Opportunity Zone Act (KEOZ)

The Kentucky Economic Opportunity Zone Act (KEOZ) provides tax credits to companies that establish new or expand existing manufacturing, service or technology operations in a qualified zone. Qualified zones are located in areas with high unemployment and poverty levels. There are five (5) communities and thirty (30) KREDA qualified counties as of the end of 2005. KEDFA has approved eight projects to date, only one in the amount of \$128,296 remains active.

Kentucky Environmental Stewardship Act (KESA)

This new program was adopted by the 2005 General Assembly to attract projects that manufacture products that have a substantial and unique effect on the environment. One project involving the placement of hybrid technology in automobiles received preliminary approval for incentives of \$9 million. The project to be undertaken by Toyota Motor Manufacturing Kentucky, Inc. is estimated to generate approximately \$49 million in new capital investment.

Kentucky Industrial Development Act (KIDA)

With assistance from the Kentucky Industrial Development Act (KIDA) program 45 companies expanded or located new operations within the state during the period of January 1, 2005 through December 31, 2005. These 45 companies are anticipated to invest approximately \$449,833,505 and create 2,732 new jobs. An additional 25 companies completed their KIDA transactions during the same period resulting in 1,915 new jobs and private investment of approximately \$402,678,202. The wages for the combined 70 projects are estimated to total \$15.16 per hour.

Kentucky Investment Fund Act (KIFA)

There was \$2.6 million in new KIFA credits for two separate investment funds approved by KEDFA in 2005. An aggregate of \$4,365,000 in credits has been awarded to a total of six investment funds under the KIFA program since program inception.

Kentucky Industrial Revitalization Act (KIRA)

Two companies received preliminary approval under the KIRA program that will result in the retention of 336 jobs and the creation of another 17 jobs when the projects are finalized. The preliminary approvals authorized \$11 million in incentives to leverage \$71 million in reinvestment. Two companies also received final approval during the year resulting in the retention of 441 jobs that would have been eliminated absent the use of these incentives. Approximately \$21 million in private capital was invested to stabilize the economic condition of the two facilities assisted through the authorization of \$9 million in KIRA incentives.

Kentucky Jobs Development Act (KJDA)

For the period beginning January 1, 2005 and ending December 31, 2005, 44 companies received preliminary approval for an accumulative total of \$119,806,467 in approved costs, projecting the creation of 7,914 new full-time jobs in the Commonwealth of Kentucky with average hourly wages of \$18.89. Additionally, 19 companies received final approval for an accumulative total of \$51,951,361 in approved costs and estimated to generate 3,051 jobs in Kentucky with \$18.56 in average hourly wages.

Kentucky Rural Economic Development Act (KREDA)

A total of 31 companies received preliminary approval under the Kentucky Rural Economic Development Act (KREDA) program from January 1, 2005, through December 31, 2005. These 31 companies were approved for \$51.9 million in tax incentives and are anticipated to invest approximately \$169 million. The projects are estimated to

create 2,295 new jobs with average hourly wages of \$12.35 in Kentucky's higher unemployment counties. During the same period 18 companies finalized \$33 million in KREDA incentives with new private investment of \$116.2 million and the creation of an additional 1,410 jobs. Wages for the new jobs are estimated to average \$12.28 per hour.

Tax Increment Financing (TIF)

KEDFA has approved two projects (one in 2005) under the TIF infrastructure development program since inception. Only one, a project being undertaken by the Inter-Modal Transportation Authority, Inc. for the Kentucky Transpark, remains active.

Kentucky Strategic Plan for Economic Development

In 1992, the Kentucky General Assembly enacted HB 89 to provide for continuity and stability in the state's economic development system, professionalism in the leadership of the primary state economic development agency, and long-range planning to meet the demands of a competitive global economy. HB 89 mandates the preparation of a state strategic plan for economic development and the creation of the Kentucky Economic Development Partnership. The Partnership is responsible for directing and overseeing the Cabinet for Economic Development and adopting a Strategic Plan.

The Partnership sought broad-based input and participation of public and private individuals and organizations, resulting in the adoption of the first Kentucky Strategic Plan for Economic Development in May 1994. Public/private sector cooperation remains a driving force in realizing a common mission, "To create more and higher quality opportunities for all Kentuckians by building an expanding sustainable economy."

The Plan was revised in 1997 to reflect 20 completed tactics and new tactics that were needed to accommodate emerging possibilities and priorities. The Partnership updated the Kentucky Strategic Plan for Economic Development for 2002-2006, to meet legislative requirements for strategic planning adopted by the 2000 Kentucky General Assembly. A revised strategic plan was submitted with the biennial budget request in November 2003, as required by law.

The latest update to the Kentucky Strategic Plan for Economic Development was revised and adopted by the Kentucky Economic Development Partnership in the fall of 2005. The Plan was revised with input from staff, considering a review of the following documents: FY 2005 Strategic Plan Progress Reports and Governor Fletcher's Five Strategic Themes. The Cabinet's biennial budget for 2007-08 includes expansion items or new programs needing additional funds above FY 2006 funding identified as Objectives 2.2, 2.3, 2.4, 2.5, 3.4, and 4.4. The appropriate budgetary request was made with submission of the biennial budget in 2007-08.

To obtain a copy of the latest Kentucky Strategic Plan for Economic Development go to the Cabinet's web site at www.thinkkentucky.com or send an e-mail request to econdev@ky.gov.

2005 Accomplishments

Kentucky Strategic Plan for Economic Development

The revised Kentucky Strategic Plan for Economic Development 2005-2009 takes into consideration several accomplishments over the last year from the Strategic Plan adopted in December 2004.

Objective 1.5 Develop building and land absorption analysis capability into the current site evaluation work program

Developed tracking system in existing site and building database to allow for the capture of available land added and absorbed. The new tracking system will allow the Cabinet to provide local officials and economic development professionals with information to assist with market feasibility information for decision-making purposes related to industrial site development.

Objective 2.1 Develop a small business lending program

The enactment of SB 156 in March 2005 provided the outline for the new small business loan program. Lending policies and application procedures were developed by staff and discussed at the June 30, 2005 KEDFA Board meeting. The program was launched in September 2005.

Objective 2.4 Develop legislation to replace the expiring Kentucky Enterprise Zone Program with the Kentucky Enterprise Initiative Act

Legislation for the Kentucky Enterprise Initiative Act passed as part of HB 272 – Tax Modernization by the 2005 Kentucky General Assembly.

Objective 2.5 Create interactive web-based database to promote sales between Kentucky companies

SB 156, which became law in March 2005, requires the Cabinet to maintain an interactive web-based database to promote sales between Kentucky companies. Preliminary work by Cabinet staff in the 2004 business survey yielded more than 700 interested Kentucky companies. Technology to support the database was created in-house and the program was launched in August 2005.

Objective 4.1 Appropriate adequate funding to carry out the mission of the Kentucky Commission on Small Business Advocacy

The Cabinet's responsibility to support the Commission was effective June 20, 2005. Staff appointment and budget preparation commenced in the first quarter of FY 2006.

Objective 4.6 Develop online registration system for businesses wanting to be notified of new state regulations that may impact small business as part of the role of the Commission on Small Business Advocacy

Online registration system developed allowing Kentucky businesses to register with the Commission on Small Business Advocacy for purposes of being notified of new state regulations that may impact small businesses and allow for comment and feedback from the businesses on the regulations.